



U.S. Small Business  
Administration

# Financial Management

FOR A SMALL  
BUSINESS



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# Why is Financial Management important?

- It forms the foundation for reaching your goals through sound business decisions.
- It is the way you know if you are making a profit.
- Financial management helps you decide what you can afford in terms of store or office location, inventory purchases, employees, and equipment.
- It gives you the tools to plan for overall business growth, for diversification of your product lines, or for reaching new markets.
- Effective financial management gives you tools to chart your course into the future, adjust your direction when needed, and help you find your way through challenging times.

# Budgeting

**Creating a budget is the first place to start. A budget is a list of all your (monthly or yearly) projected revenues and expenses, organized by categories. It helps you:**

- **Track all your business expenses**
- **Plan for the future**
- **Economize when you need to**
- **Plan for expansion**

**Once you create a budget, use it to compare what you've budgeted with your actual revenues and expenditures.**

# Bookkeeping

- Critical component of financial management
- Organized process of tracking all income and expense transactions
- Basis for all financial management, business decisions, financing, taxes, owner's draw, and retirement.



# Pros of In-House Bookkeeping vs. Outsourcing

## In-House:

- Bookkeeper devoted to your business
- Most modern bookkeeping software is easy to use – inputs / reports
- Familiarity with your business
- May handle other tasks

## Outsourcing:

- May cost less?
- Software allows easy data transfer for your reports
- Technology enables secure sharing of sensitive data
- May gain access to multiple skill sets

# **Business Accounting Software Examples:**

**AccountEdge**

**Cougar Mountain**

**QuickBooks**

**Sage**

**CYMA**

## **FREE Software**

**FreshBooks**

**Wave Accounting**

**Outright**

**Zoho Invoice**

# Bookkeeping Steps

**Here are 10 basic bookkeeping steps:**

1. Obtain business accounting software
2. Open a separate business checking account
3. Reconcile your checking account
4. Track sales
5. Deposit all sales

Continued ...



# Bookkeeping Steps

Here are 10 basic bookkeeping steps:

6. Write business checks for business expenses
7. Obtain a separate business credit card
8. Pay business expenses first
9. Generate and use a profit and loss (P&L) statement
10. Pay yourself with owner's draw

# Using Financial Statements to Manage Your Business



Douglas S. Cavanaugh

## Typical Financial Statements

- Income Statement (P&L)
- Balance Sheet
- Statement of Cash Flows

## *Others that may be important:*

- Accounts Receivable Aging Summary
- Accounts Payable Aging Summary

***Your accounting software should be able to create the reports whenever you need them***

# Cash Flow

## What is cash flow?

Def. 1. Balance of cash received less the amount of cash paid out over a period of time

Def. 2. Moving cash in or out of a business



# Cash Flow Projection

## What is a cash flow *projection*?

A financial statement using assumptions to forecast:

- Company Cash flowing in and out
- *Future* cash flow during a specific time period
- Project whether cash receipts (in flows) will be sufficient to cover projected cash disbursements (out flows).



# Cash Flow Projection

**How can a cash flow projection help and when do I need one?**

- Set sales budgets and associated expense outlays
- Plan equipment purchases for replacement or expansion
- Determine cash needed to purchase inventory for seasonal cycles

Continued ...

# Cash Flow Projection Sample

Let's look at a sample cash flow projection.

Sources of Cash



Operating Uses of Cash




Non-Operating Uses of Cash



| Sources of Cash                   | Opening Balances* | Month 1 | Month 2 |
|-----------------------------------|-------------------|---------|---------|
| Beginning Cash                    |                   | 0       | 0       |
| Cash Sales                        |                   |         |         |
| Collections on A/R                |                   |         |         |
| Interest income                   |                   |         |         |
| Loan Received                     |                   |         |         |
| Equity Contribution               |                   |         |         |
| <b>Total Cash Available</b>       | 0                 | 0       | 0       |
| <b>Operating Uses of Cash</b>     |                   |         |         |
| Contract labor                    |                   |         |         |
| Wages                             |                   |         |         |
| Payroll Taxes                     |                   |         |         |
| Rent                              |                   |         |         |
| Phone                             |                   |         |         |
| Office Supplies                   |                   |         |         |
| Utilities                         |                   |         |         |
| Travel                            |                   |         |         |
| Insurance                         |                   |         |         |
| Licenses                          |                   |         |         |
| Marketing                         |                   |         |         |
| Professional Fees                 |                   |         |         |
| Other                             |                   |         |         |
| <b>Total Op Uses</b>              | 0                 | 0       | 0       |
| <b>Net Cash</b>                   | 0                 | 0       | 0       |
| <b>Non-Operating Uses of Cash</b> |                   |         |         |
| Debt Service                      |                   |         |         |
| Equipment Purchases               |                   |         |         |
| Self Employment Taxes             |                   |         |         |
| Owner's Draw                      |                   |         |         |
| Inventory Purchases               |                   |         |         |
| <b>Ending Cash</b>                | 0                 | 0       | 0       |

# Strategies for creating positive Cash Flow:

- 
1. Increase the number of items sold
  2. Increase the price
  3. Reduce expenses
  4. Change the timing of expenses
  5. Save money to have sufficient Opening Cash to get through the “start-up” period

Continued ...

# Strategies for creating positive Cash Flow (continued):

6. Obtain sources of cash other than sales (e.g., line of credit)
7. Reduce or change timing of Owner's Draw
8. Buy inventory from vendor at lower price
9. Obtain credit from vendor
10. Establish policy to get paid sooner by customers

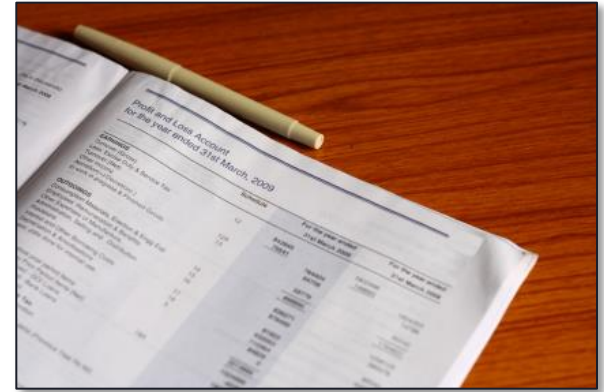


# Profit and Loss Statement

What is an Income Statement (aka Profit and Loss Statement aka P&L) ?

## A P&L Statement:

- Measures revenues and expenses over a period of time
- Tracks profitability: whether the business is making a profit on what it sells



Continued ...

# Profit and Loss Statement

**Sales Revenue**

**- Cost of Goods Sold (COGS)**

**Gross Profit\*\***

**- Expenses**

**Net Profit**

**\*\* Gross Margin is Gross Profit expressed as a percentage**

**Larry's Landscaping & Garden Supply**  
**Profit & Loss**  
 October 2011 through September 2012

|                           | <u>Oct '11 - Sep 12</u> |
|---------------------------|-------------------------|
| Ordinary Income/Expense   |                         |
| Income                    |                         |
| Landscaping Services      | 57,860.36               |
| Markup Income             | 815.00                  |
| Retail Sales              | 383.03                  |
| Service                   | 6,640.00                |
| Total Income              | 65,698.39               |
| Cost of Goods Sold        |                         |
| Cost of Goods Sold        | 4,220.25                |
| Total COGS                | 4,220.25                |
| Gross Profit              | 61,478.14               |
| Expense                   |                         |
| Payroll Expenses          | 37,820.65               |
| Automobile                | 738.05                  |
| Bank Service Charges      | 73.50                   |
| Delivery Fee              | 15.00                   |
| Insurance                 | 1,835.00                |
| Interest Expense          | 470.91                  |
| Job Expenses              | 2,427.25                |
| Mileage Reimbursement     | 0.00                    |
| Professional Fees         | 375.00                  |
| Rent                      | 2,400.00                |
| Repairs                   | 45.00                   |
| Tools and Misc. Equipment | 735.00                  |
| Uncategorized Expenses    | 0.00                    |
| Utilities                 | 655.55                  |
| Total Expense             | 47,590.91               |
| Net Ordinary Income       | 13,887.23               |
| Other Income/Expense      |                         |
| Other Income              |                         |
| Misc Income               | 762.50                  |
| Interest Income           | 91.11                   |
| Total Other Income        | 853.61                  |
| Net Other Income          | 853.61                  |
| Net Income                | <u>14,740.84</u>        |

**Sample P&L**

**Net Income aka  
 "Bottom Line"**

# Profit and Loss Statement

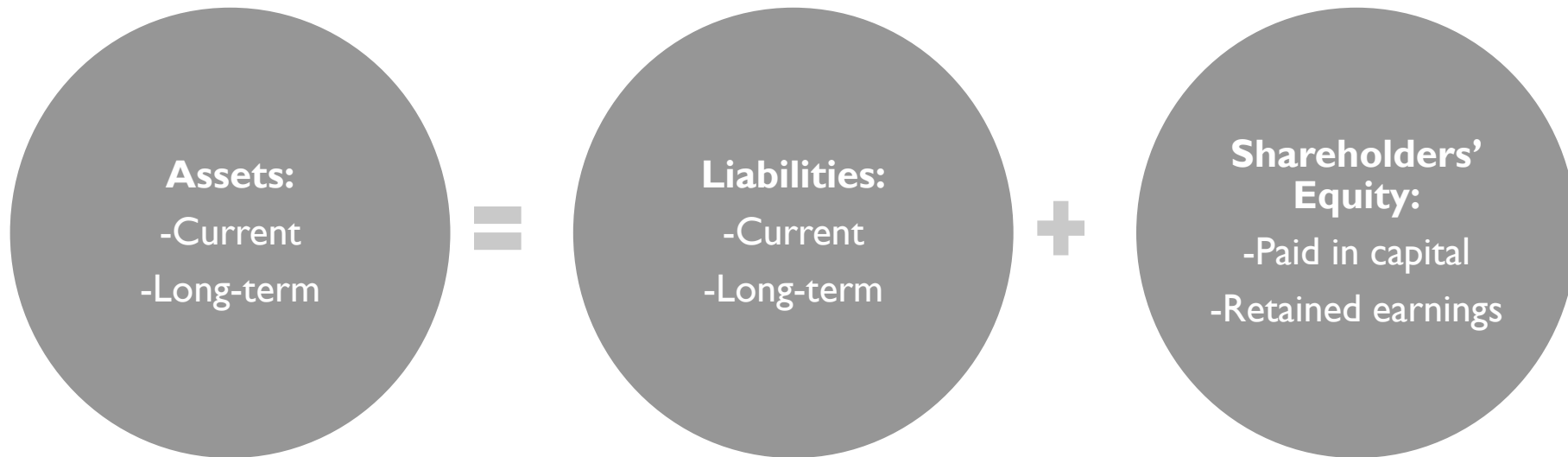
What is a Profit and Loss Statement?

A P&L Statement:

- Shows how successfully the buying and selling process has been managed
- Measures the ability of your business to grow, repay debt service and support you

**The P&L is the most important report from your accounting software program.**

# Balance Sheet



A balance sheet is a financial snapshot of what assets, liabilities, and shareholder's equity are at a specific moment in time.

# Balance sheet

**BUSINESS CONSULTING COMPANY  
BALANCE SHEET  
As at December 31, 2015**

| Assets                     |              | \$      | Liabilities & Stockholders' equity       |               | \$      |
|----------------------------|--------------|---------|--|---------------|---------|
| <u>Current assets:</u>     |              |         | <u>Liabilities:</u>                      |               |         |
| Cash                       |              | 85,550  | Notes payable                            |               | 5,000   |
| Accounts receivable        |              | 4,700   | Accounts payable                         |               | 1,600   |
| Prepaid building rent      |              | 1,500   | Salaries payable                         |               | 2,000   |
| Unexpired insurance        |              | 3,600   | Income tax payable                       |               | 3,000   |
| Supplies                   |              | 250     | Unearned service revenue                 |               | 4,400   |
| Total current assets       |              | 95,600  | Total liabilities                        |               | 16,000  |
| <u>Non-current assets:</u> |              |         | <u>Stockholders' equity:</u>             |               |         |
| Equipment                  | 9,000        |         | Capital stock                            | 50,000        |         |
| Acc. dep. - Equipment      | <u>3,600</u> | 5,400   | Retained earnings                        | <u>35,000</u> | 85,000  |
| Total assets               |              | 101,000 | Total liabilities & stockholders' equity |               | 101,000 |

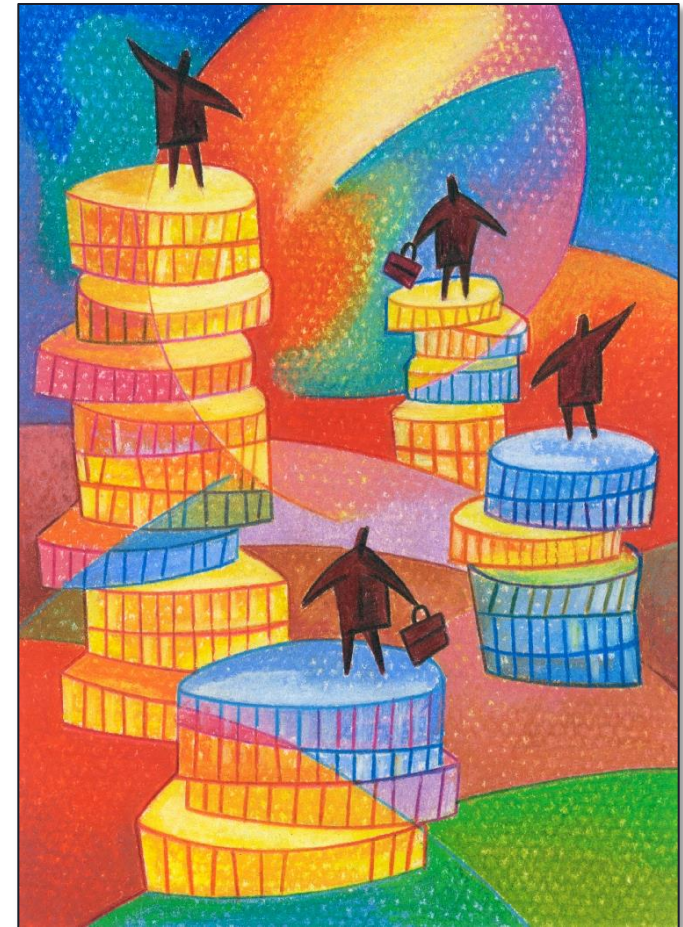
# Business Financing

## What is business financing?

Financing is getting the money you need to start, operate or grow your business

## Basic Financing Concepts:

- Equity financing vs. debt financing
- Financing working capital vs. financing fixed assets



# Business Financing

## What are the Do's and Don'ts for small business financing?

- Invest your own money
- Earn the right to borrow
- Show profitability
- Understand and keep working capital
- Be lean on fixed assets
- Match sources and uses of funds

Continued ...



# Business Financing

What are the Do's and Don'ts for small business financing?

- Understand your financial statements
- Understand collateral options
- Understand risks and costs for loan types
- No grants
- Get expert advise (e.g. SBA, SBDC, SCORE, WBC, or your bank)

<https://www.sba.gov/tools/local-assistance>

# Looking for a Loan

Where should you look for a business loan?

- Banks
  - Conventional
  - SBA Guaranty
  - [www.sba.gov/funding-programs/loans/lender-match](http://www.sba.gov/funding-programs/loans/lender-match)
- Microlenders
- Gov Loans.gov  
[www.govloans.gov/](http://www.govloans.gov/)



# Questions?



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